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TO RUEHC/SECSTATE WASHDC PRIORITY 3455
INFO RUEATRS/DEPT OF TREASURY WASHDC
RHMFIUU/DEPT OF ENERGY WASHINGTON DC
RHEHAAA/NATIONAL SECURITY COUNCIL WASHINGTON DC
RUCPDOC/DEPT OF COMMERCE WASHINGTON DC
RUEHBJ/AMEMBASSY BEIJING 0380
RUEHBR/AMEMBASSY BRASILIA 7146
RUEHBU/AMEMBASSY BUENOS AIRES 2721
RUEHSG/AMEMBASSY SANTIAGO 1021
RUEHBO/AMEMBASSY BOGOTA 4206
RUEHLP/AMEMBASSY LA PAZ DEC QUITO 0906
RUEHCV/AMEMBASSY CARACAS 0034

UNCLAS LIMA 004773

SIPDIS

STATE FOR EB, WHA/AND, WHA/EPSC, EB/ESC, OES
TREASURY FOR A. JEWELL, J. LEVINE
STATE PASS TO EXIM - A. FOLEY, C. O'CONNOR, R. WILLIAMSON
DEPT OF ENERGY FOR PUMPHREY/LADISLAW; DOBRIANSKY/RICHARDS
ENERGY INFORMATION ADMINISTRATION FOR CHARLES ESSER
DEPT PASS TO INT/USGS/RESTON FOR D. MENZIE/A. GURMENDI
USAID FOR LAC, EGAT
USTR FOR HARMAN, CARILLO

SIPDIS
SENSITIVE

E.O. 12958: N/A
TAGS: [EPET](#) [ENRG](#) [EINV](#) [SENV](#) [PE](#)
SUBJECT: PERU OIL BOOM CONTINUES; EXPLORATION SPREADS TO HEAVY OIL

REF: Lima 4321

¶1. (SBU) SUMMARY. The GOP signed oil exploration deals with three foreign firms on December 12, resulting in a record 16 oil exploration deals signed this year. One of the firms, Texas-based Barrett Resources, also announced its intention to produce oil in another block, with plans to produce 100,000 barrels per day by **¶2010**. New technology and high oil prices have made profitable the heavy Amazon oil that companies such as Occidental had declined to exploit in the past. The GOP plans to offer 17 concession lots for exploration bids in February. Despite the good news, foreign firms have raised concerns that some in the GOP may have anti-competitive plans. END SUMMARY.

¶2. (U) In a December 12 signing ceremony over which Minister of Energy (MEM) Juan Valdivia presided, the GOP formalized oil exploration contracts with three foreign firms: Barrett Resources (U.S., Lot 125), Hocol Peru (Colombian, Lot 116) and Gran Tierra Energy (U.S./Canadian, Lot 128). The three lots total almost 3 million hectares, in the Amazon basin areas of San Martin, Amazonas and Loreto Departments; each firm committed to investments of from \$32 to 45 million.

¶3. (U) These three contracts bring to 16 the number of exploration and production contracts signed for 2006, exceeding 2005's record of **¶15**. U.S. firm Burlington Resources, acquired this year by ConocoPhillips, signed in September the first oil exploration/production agreement to be finalized under President Garcia's administration. Burlington will spend about \$108.5 million in the seven-year exploration phase in blocks 123 and 124, and is in the exploration phase for block 104 under a 2005 agreement. With 61 contracts in force for oil or natural gas, the GOP plans to invite bids for 17 additional concessions in February at the annual hydrocarbon fair in Texas. (Note: some media reports have trumpeted Peru's covering its Amazon basin with oil development. Most of these wells will cover one or two hectares out of the hundreds of thousands in each concession. Some concessions include protected areas for which Peruvian law permits hydrocarbon exploration. End

Note.)

¶4. (U) At the December 12 ceremony in Lima, Barrett took the opportunity to announce "commerciality" (intention to produce) for Block 67, an Amazon heavy oil area that Barrett concessioned in 1995 and confirmed oil in 1998. At that time the expensive extraction process, coupled with lower oil prices did not make production feasible. Barrett has invested over \$100 million after drilling new wells in 2006, with current production techniques and high oil prices making production attractive. During peak production, beginning in 2010, Barrett expects to produce 100,000 barrels per day.

¶5. (U) Note: Block 67 is part of the same general seam of heavy oil that includes Blocks 8 and 1AB where Pluspetrol has had environmental issues with contamination of the high volume of water that is extracted with the oil in this area (Reftel). Barrett executives took pains to explain to us (and in their press release) that all water extracted with the oil will be reinjected into the fields (something Pluspetrol had neglected to do earlier in its exploitation).

¶6. (U) Another project dimension of Lot 67 is the construction of a 400km pipeline to connect Barrett's production to the existing Northern Peru pipeline system, which currently transports higher-grade crude. To avoid problems resulting from mixing the two grades, Barrett will construct a heavy oil upgrade facility. This model should encourage other firms to conceptualize exploitation of nearby heavy oil fields. Aside from extraction challenges, the inability of the Northern Pipeline to carry heavy oil has been a deterrent to exploitation of this area. Pluspetrol, for example, ships its Block 8 oil out on river barges.

NOT ALL IS ROSY

¶7. (SBU) Despite the heady news of oil and gas to be exploited and the GOP's public efforts to show it welcomes foreign investment, some foreign firms remained cautious about the future business climate. State-controlled Perupetro, responsible for overall regulation and licensing of the oil and gas industries in Peru, recently disqualified one U.S. independent from a pre-Garcia exploration contract for alleged lack of financial resources. Strong advocacy from several sources, including the U.S. Embassy and inside the GOP, appears to have helped to convince Perupetro to rescind the disqualification yesterday. State-owned oil company Petroperu's recent cooperation agreement with Brazilian parastatal Petrobras has helped fuel the rumor that some in the GOP want to turn state-owned Petroperu into a major exploration firm allied with other regional parastatals that would compete against foreigners. Perupetro's President told us that after recently being "burned" by a small U.S. firm that failed to carry out a concession contract, Perupetro is leery of undercapitalized independents

COMMENT

¶8. (SBU) The three-contract signing and commerciality announcement was front page news in the major Lima newspapers. While we will continue to watch for difficulties, so far we believe the GOP's interest in attracting investment is genuine, and have seen no firm evidence that it intends to interfere unfairly in the concessioning process.

¶9. (U) Information on oil concession blocks can be found on Perupetro's English language web site at <http://mirror.perupetro.com.pe>.

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